

Message Text

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SUBJECT: GOVERNMENT TAKEOVER OF SASKATCHEWAN OIL
INDUSTRY HINTED AS OPTION

1. IN DECEMBER 28 GLOBE AND MAIL STORY FILED SASKATOON, SASKATCHEWAN ATTORNEY GENERAL ROY ROMANOW QUOTED AS SAYING NATIONALIZATION OF SASKATCHEWAN OIL INDUSTRY OR A PORTION OF IT MUST BE CONSIDERED AS AN OPTION BY THE PROVINCIAL GOVERNMENT IN LIGHT OF COURT CASES THAT HAVE BEEN LAUNCHED AGAINST IT BY TWO COMPANIES. (CANADIAN INDUSTRIAL GAS AND OIL LTD CIGOL OF CALGARY AND IMPERIAL OIL LTD. OF TORONTO ARE SEEKING TO HAE GOS OIL ROYALTY LEGISLATION DECLARED INVALID. IF SUCCESSFUL, THEY COULD RECOVER NEARLY 50 MILLION DOLLARS ALREADY COLECTED, AND IF OTHER COMPANIES FOLLOW SUIT, PROVINCE MIGHT HAVE TO PAY BACK UP TO 500 MILLION DOLLARS)

2. IN INTERVIEW, ROMANOW SAID 'IF IT CAME DOWN TO A PROPOSITION OF HAVING TO PAY BACK THE 500 MILLION
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AND THERE BEING NO OTHER WAY TO PROTECT IT OTHER THAN THE PROSPECT OF NATIONALIZATION, THEN WE WOULD HAVE NO OTHER OPTION.'

3. STORY ALSO REPORTS INITIAL REACTION FROM OIL INDUSTRY IN PROVINCE AS ADDING UNCERTAINTY TO

ALREADY TROUBLED IN INDUSTRY, AND COULD ACT TO DISCOURAGE OIL COMPANIES FROM INVESTING EXPLORATION MONEY IN SASKATCHEWAN WHICH HAS ALREADY BEEN ON DECLINE FOR SEVERAL YEARS.

4. NOTING THAT SUCH TAKEOVER COULD BE POLITICALLY DANGEROUS, AND VOICING CONCERN WHETHER GOS COULD RUN THE INDUSTRY EFFICIENTLY. ROMANOW ADDED THAT 'THE GOVERNMENT HAS NO INTEREST IN RUNNING THE OIL INDUSTRY. WE HAVE ENOUGH ON OUR PLATE NOW WITH POTASH BUT AS I SEE IT, WE WOULD NOT BE PREPARED TO LET THAT MONEY GO.'

5. FIRST, GOS WILL WANT TO SEE A SUPREME COURT RULING ON CANADIAN GAS AND OIL LTD'S CHALLENGE WHICH IS EXPECTED IN JANUARY. THEN, ROMANOW SAID, HE WILL WANT TO SEE HOW OTHER OIL COMPANIES REACT IF IT GOES AGAINST THE GOVERNMENT, AND HOW THE FEDERAL GOVERNMENT WILL REACT. ROMANOW HAS WRITTEN JUSTICE MINISTER RON BASFORD ASKING FOR A MEETING TO DISCUSS FEDERAL ATTITUDE WHICH GOS SEES AS PRIMARILY SUPPORTIVE OF COMPANIES. MR. ROMANOW SAID THAT PROVINCIAL POWER TO TAX RESOURCE DEVELOPMENT IS ALSO AT STAKE IN THE FIGHT, AND OTTAWA'S ATTITUDE WILL HELP DETERMINE WHETHER THE PROVINCE MUST TAKE DRASTIC ACTION.

6. FROM CONTACTS IN SASKATCHEWAN'S ENERGY SECRETARIAT, POST HAS CONFIRMED SUBSTANCE OF GLOBE AND MAIL STORY. SOURCES SAID THAT WHILE NATIONALIZATION OF THE OIL INDUSTRY HAS BEEN A SUBJECT OF RECURRING RESOLUTIONS BY SASKATCHEWAN'S NEW DEMOCRATIC PARTY OVER THE YEARS, UNCLASSIFIED

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IT IS A MUCH NEWER OPTION IN GOVERNMENT CIRCLES. THE GOS HAS ALWAYS OPERATED ON PHILOSOPHY THAT THERE IS IMPORTANT ROLE IN THE PROVINCE'S OIL INDUSTRY FOR PRIVATE SECTOR, PROVIDED THE PROVINCE RECEIVES FAIR VALUE FOR ITS RESOURCES. WITH CIGOL'S PENDING SUPREME COURT (WHICH WAS DENIED BY TWO LOWER COURTS) AND IMPERIAL'S ACTION FOLLOWING SUIT, THE COMPANIES ARE ALLEGING AN ONEROUS LEVEL OF TAXATION, AND THUS ARE CHALLENGING WHAT THE PROVINCE CONSIDERS TO BE A FAIR RETURN.

7. COMMENT. WHETHER THE GOS IN FACT WOULD BE ABLE TO CARRY OUT NATIONALIZATION OF SASKATCHEWAN'S OIL INDUSTRY IS A DIFFICULT QUESTION. THE PROVINCE'S CONDUCT IN ACQUIRING ONE POTASH COMPANY AND IN NEGOTIATIONS WITH OTHERS HAS BEEN CAUTIOUS AND MODERATE WITH CAREFUL CONSIDERATION FOR ITS IMPACT ON THE INVESTMENT CLIMATE IN SASKATCHEWAN. GIVEN THIS TRACK RECORD, IT MAY BE

THAT ROMANOW'S STATEMENTS, AT LEAST FOR NOW, ARE MAINLY
POLITICAL POSTURING TO STRENGTHEN THE PROVINCE'S HAND
WITH THE FEDERAL GOVERNMENT.
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